Ontario

OntarioFinancingAuthority
Bulletin

www.ofina.on.ca

2008-09 Second Quarter Ontario Finances

October 22, 2008

Fiscal Outlook

EMAIL ALERT SERVICE

Visit www.ofina.on.ca and subscribe to our email alert service to receive the latest Province of Ontario updates:

- Bond Issues
- Borrowing Program
- OFA Bulletin
- IR Presentations
- Webcasts
- Other events

- In the current environment of heightened economic uncertainty, many international jurisdictions face an unparalleled economic crisis as slowing economies result in lower revenue growth. Ontario is no exception.
- The Province's 2008-09 revenue is currently projected to decline by 1.2 per cent compared to 2007-08 — the first time Provincial revenues have declined since 2003-04. This projected decline in revenue, combined with increased spending on health, has resulted in a forecasted deficit of $500 million for 2008-09, which represents 0.5 per cent of the 2008-09 revenue outlook.
- The 2008 Budget plan included prudence in the form of a $750 million reserve in 2008-09 to protect against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. A portion of the reserve has been drawn down to partially offset the effects of slower economic growth on the Province's fiscal outlook. The Province continues to maintain a $200 million reserve in recognition of the continued global economic uncertainty that could further impact the Province's finances.
- The revenue outlook at $96.0 billion has decreased by $0.9 billion from the 2008 Budget forecast, largely reflecting slower economic growth projections for 2008, partially offset by higher Government of Canada transfers.
- Total expense in 2008-09 is currently projected to be $96.3 billion, an increase of $0.1 billion from the 2008 Budget forecast. This change in total expense primarily reflects an increase in the Ministry of Health and Long-Term Care for utilization-related expense in the OHIP program.
- As a measured and balanced response to slowing revenues, the government will delay or slow down the implementation of some new spending commitments.
- Recognizing the current economic uncertainty, the government will continue to maintain a cautious and prudent fiscal plan, including a reserve and contingency funds, while taking immediate action to manage expense growth. The government will also continue to monitor risks to Ontario's economic and fiscal situation closely, and will update Ontario's medium-term fiscal plan and outlook in the 2009 Budget.

Fiscal Summary ($ Billions)	**Budget Plan**	**Current Outlook**	**In-Year Change**
Revenue	**96.9**	**96.0**	**(0.9)**
Expense			
Programs	87.3	87.4	**0.1**
Interest on Debt	8.9	8.9	—
Total Expense	**96.2**	**96.3**	**0.1**
Reserve	0.8	0.2	**(0.6)**
Surplus/(Deficit)	**0.0**	**(0.5)**	**(0.5)**

Note: Numbers may not add due to rounding.

This bulletin was compiled by the Ontario Financing Authority. This information is intended for general information purposes only and does not constitute an offer to sell or a solicitation of offers to purchase securities. It has not been approved by any securities regulatory authority and it is not sufficient for the purpose of deciding to purchase securities. It may have errors or omissions resulting from electronic conversion, downloading or unauthorized modifications. Statements in this bulletin may be "forward-looking statements" within the meaning of the U.S. *Private Securities Litigation Reform Act of 1995*. Such forward-looking statements involve uncertainties, risks, and other factors which could cause the state of Ontario's economy to differ materially from the forecasts and economic outlook contained expressly or implicitly in such statements. The Province of Ontario undertakes no obligation to update forward-looking statements to reflect new information, future events or otherwise, except as may be required under applicable laws and regulations. While the information in this bulletin, when posted or released, was believed to be reliable as of its date, **NO WARRANTY IS MADE AS TO THE ACCURACY OR COMPLETENESS OF THIS DOCUMENT OR THE INFORMATION IT CONTAINS.**

Economic Outlook

- The Province's economic growth is expected to be soft in the near term due to heightened global economic uncertainty.
- The Ministry of Finance is lowering its projection for 2008 real GDP growth to 0.1 per cent from the 1.1 per cent released in the 2008 Budget.
- The average private-sector forecast for Ontario real GDP growth is now 0.7 per cent in 2009, significantly weaker than the Ministry of Finance's 2008 Budget forecast of 2.1 per cent.
- This is a time of unusually heightened global economic uncertainty that is having an impact on many jurisdictions including Ontario. Private-sector forecasts for economic growth were changing rapidly during the writing of the Fall Economic Statement. The Ministry of Finance will update its economic growth projections for planning purposes in the 2009 Budget.

Economic Highlights

- Ontario's real GDP increased 0.3 per cent in the second quarter, following a contraction of 0.4 per cent in the first quarter. The main drag on growth has been lower export volumes, which are down more than seven per cent over the first half of the year. Ontario's real GDP growth averaged 2.3 per cent over the 2003 to 2007 period.
- The side of the Ontario economy based on domestic demand has remained strong in 2008. Household spending continues to be firm, with real consumer spending up by a robust 4.6 per cent in the first half of the year. Residential construction spending has increased by 0.9 per cent in real terms. So far in 2008, housing starts averaged 77,600 units (on an annualized basis), up from 69,100 units for the same period in 2007.
- Unlike in other jurisdictions, there is little evidence of overbuilding in the Ontario housing market. While housing starts have increased, home resales have weakened from a record-setting year in 2007.
- Ontario has created 104,100 jobs so far this year. Labour income grew by 4.2 per cent over the first half of the year, supported by job gains and higher wages.
- Ontario's CPI inflation rate has averaged 2.2 per cent so far this year, up from 1.8 per cent in 2007. This was largely due to elevated gasoline prices and an increase in food inflation. Ontario's core inflation rate, which excludes food and energy, has averaged 1.1 per cent on a year-over-year basis.
- The value of Ontario's merchandise exports over the last five years to the United States has fallen by 12.2 per cent. Ontario's international merchandise exports to countries other than the United States have more than doubled over the past five years.
- Business investment has been robust. Real machinery and equipment investment, a key component of increasing productivity in the province, expanded by an average of nine per cent annually between 2003 and 2007.

Borrowing Update

2008–09 Borrowing Program: Province and OEFC ($ Billions)	**Budget Plan**	**Current Outlook**	**In-Year Change**
Deficit/(Surplus)	0.0	0.5	0.5
Non-Cash Adjustments	(0.9)	2.0	2.9
Investment in Capital Assets	4.9	4.9	0.0
Net Loans/Investments	1.3	1.1	(0.2)
Debt Maturities	20.5	20.5	0.0
Debt Redemptions	1.0	0.6	(0.4)
Total Funding Requirement	**26.9**	**29.6**	**2.7**
Canada Pension Plan Borrowing	(0.6)	(0.5)	0.1
Decrease/(Increase) in Short-Term Borrowing	(2.0)	(2.9)	(0.9)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(1.4)	(1.4)
Total Long-Term Public Borrowing Requirement	**24.3**	**24.8**	**0.5**

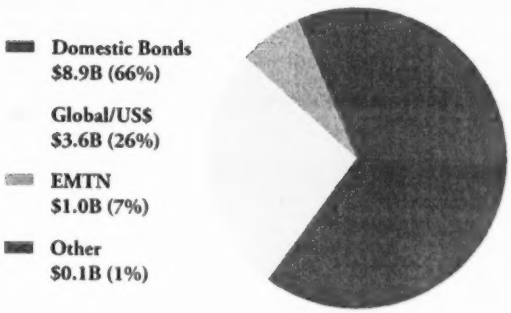
Note: Numbers may not add due to rounding.

Borrowing Update (Cont'd)

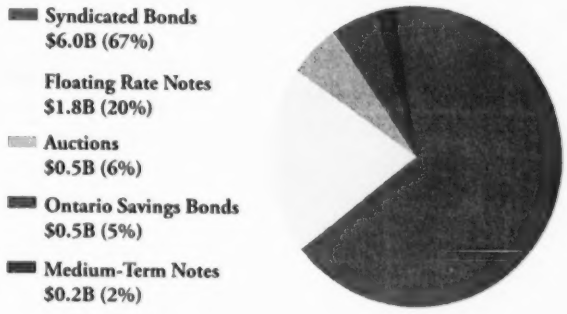
- The total long-term public borrowing requirement of $24.8 billion is $0.5 billion higher than the Budget Plan and the First Quarter Ontario Finances, due to the projected deficit.
- As at March 31, 2008, cash and cash equivalents were $1.4 billion higher than forecast in the 2008 Budget as the OFA-funded expenditures that had been anticipated to flow by the end of 2007-08 did not flow until 2008-09.
- The increase in short-term borrowing is aimed at funding the timing difference between accrual expenditures and cash outflows, while targeting liquid reserves at $5.4 billion as at March 31, 2009, unchanged from the Budget Plan.
- Debt redemptions are down $0.4 billion due to lower redemptions of Ontario Savings Bonds. The $0.2 billion decrease in net loans/investments is mainly the result of a decrease in loans to Ontario Power Generation Inc. (OPG). Canada Pension Plan borrowing of $0.1 billion was used to buy back less cost-effective debt.
- The restructuring of the frozen asset-backed commercial paper (ABCP) market in Canada has received all court approvals, and the Province expects to receive its restructured notes within the next month. The Province plans to hold these notes to maturity and no further write-down is expected at this time. It is expected that by holding the restructured notes to maturity, the Province will recover most of the accounting write-down taken last fiscal year. In the last fiscal year, final Interest on Debt charges totalled $209 million less than forecast in the 2007 Budget, even after the Province took a $107 million write-down related to its ABCP holdings. This $209 million saving allowed the Province to make further investments in priority areas like health care, education and infrastructure.

Borrowing Approach

All Markets
Total - $13.6 billion



Domestic Market
Total - $8.9 billion



- The interim long-term public borrowing requirement for 2008-09 is $24.8 billion. As at October 10, 2008, $13.6 billion, or 55 per cent, of the program had been completed.
- Global financial markets are facing unprecedented challenges. The Province is not immune to these conditions. However, the OFA has been able to maintain the pace of its borrowing program.
- About $8.9 billion, or 66 per cent, of borrowing was completed in the domestic market. The Province maintained a flexbile approach to borrowing, monitoring both domestic and international capital markets for cost-effective opportunities. The Province typically targets 25 per cent of its borrowing from international markets. So far in 2008-09 about $4.7 billion, or 34 per cent, has been raised from international markets, compared to 14 per cent for the entire 2007-08 fiscal year. Bonds issued in foreign currencies were three U.S. dollar Global bonds, Euro-Medium Term Notes denominated in sterling, Swiss francs and U.S. dollars, and one Japanese yen loan.
- Credit rating agencies rate Ontario's debt highly at Aa1 by Moody's and AA by S&P and DBRS.

Debt Portfolio

- Total debt of $172.3 billion is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.
- Public debt totals $152.4 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies.
- Ontario also has $19.9 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB).

International Bonds issued in the following currencies:

- Canadian dollar
- U.S. dollar
- Euro
- New Zealand dollar
- Swiss franc
- Japanese yen
- Australian dollar
- U.K. sterling
- South African rand
- Hong Kong dollar
- New Turkish lira

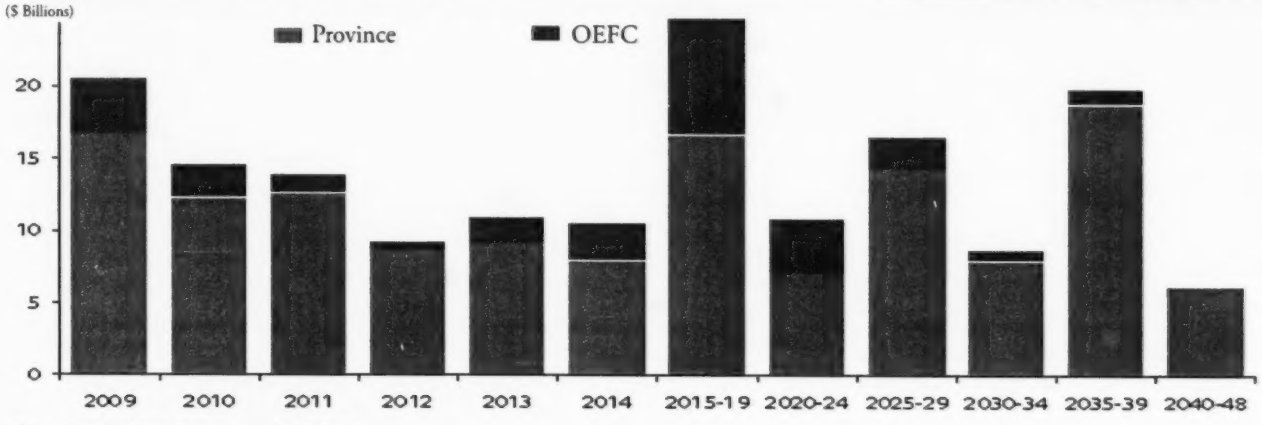
Debt Statistics

Debt	
Total Debt	$172.3 billion
Net Debt[1]	$146.3 billion
Accumulated deficit[1]	$106.1 billion
Net Debt[1]/GDP	24.5%
Accumulated deficit[1]/GDP	17.8%
Debt Statistics	
Percentage Publicly Held	88.4%
Percentage Issued in Canadian Dollars	83.8%
Effective Interest Rate (Weighted Average)	5.53%

Risk Exposure (% of debt)	**Current**	**Policy Limit**
Province		
Net Interest Rate Resetting Exposure	13.4	35.0
Foreign Exchange Exposure	0.1	5.0
OEFC		
Net Interest Rate Resetting Exposure	21.1	35.0
Foreign Exchange Exposure	0.0	5.0

Total debt represents consolidated non-public and publicly held debt. Net debt represents the difference between total liabilities and total financial assets. As at September 30, 2008. [1] Projected to March 31, 2009.

Debt Maturities



Fiscal year ending March 31; as at September 30, 2008.
Excludes short-term debt and other liabilities and the incremental impact of future financing. Assumes issues with options will be retired at the earliest possible date.

The Ontario Financing Authority is an agency of the Province of Ontario responsible for provincial borrowing and debt management activities.

Contact Us
Investor Relations
Ontario Financing Authority
One Dundas Street West, Suite 1400
Toronto, Ontario M7A 1Y7
Canada

Telephone (416) 325-0918
Fax (416) 204-6694
www.ofina.on.ca
investor@ofina.on.ca